R. C. C. No. 43

RAILWAY CONVENTION COMMITTEE (1980)

(SEVENTH LOK SABHA)

TENTH REPORT

RATE OF DIVIDEND FOR 1984-85 AND OTHER ANCILLARY MATTERS

Presented in Lok Sabha on 24.2.1984
Laid in Rajya Sabha on 24.2.1984

LOK SABHA SECRETARIAT
NEW DELHI

February, 1984/Magha, 1905 (S)

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RAILWAY CONVENTION COMMITTEE
(1980)

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Shri D. L. Baitha

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3. Shri Krishnapal Singh—*Senior Financial Committee Officer.*

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*Nominated w.e.f. 19-2-1982 Vice Shri Jyotirmoy Bosu died.

**Nominated w.e.f. 19-2-1982 Vice Shri R Venkataraman resigned from the Committee.

%Nominated w.e.f. 18-12-1982 Vice Shri P. C. Sethi resigned from the Committee.

&Nominated w.e.f. 21-12-1983 Vice Shri Sadashiv Bagaitkar died.

@Nominated w.e.f. 9-3-1982 Vice Shri Mahendra Mohan Mishra resigned from the Committee.

$Nominated w.e.f. 29-5-1982 Vice Shri F.M. Khan ceased to be a member of com mittee consequent on his retirement from the Rajya Sabha w.e.f. 2-4-1982.

£Nominated w.e.f. 21-10-1982 Vice Shri J. K. P. N. Singh resigned from Committee.

INTRODUCTION

I, The Chairman of Railway Convention Committee (1980) having been authorised by the Committee to present the Report on their behalf present this Tenth Report on the Rate of Dividend payable by the Railway Undertaking to the General Revenue and other Ancillary Matters for the financial year 1984-85.

2. The Ministry of Railways submitted a supplementary memorandum on Rate of Dividend etc. for 1984-85 on 19 December, 1983 and a memorandum on Contribution to Depreciation Reserve and Pension Funds in 1984-85 on 16 January, 1984. The Committee considered these memoranda on 17 February, 1984. This Report of the Committee was also adopted at their sitting held on 17 February, 1984. Minutes of the sitting form part II of the Report.

3. The Committee wish to express their thanks to the Ministry of Railways (Railway Board) for placing before them the material and information they desired in connection with the examination of the subject.

4. A statement showing the summary of the recommendations of the Committee contained in this Report is at Appendix.

NEW DELHI;
February 18, 1984
Magha 29, 1905 (*S*)

D. L. BAITHA,
Chairman,
Railway Convention Committee

REPORT

In pursuance of Resolutions adopted by Lok Sabha on the 4th August, 1980 and by the Rajya Sabha on the 11th August, 1980, the Railway Convention Committee, 1980 was constituted on the 10th October, 1980 "to review the rate of dividend which is at present payable by the Railway Undertaking to General Revenues as well as other Ancillary Matters in connection with the Railway Finance vis-a-vis the General Finance and make recommendations thereon."

A. DIVIDEND TO GENERAL REVENUES

2. In their Seventh Report presented to Parliament on 5 November, 1982, the Railway Convention Committee, suggested that purely as an interim measure the actual payment of dividend for the period 1980-84 be restricted to the amount worked out applying differential rates proposed by the Ministry of Railways and agreed to by the Ministry of Finance.

3. The Committee accordingly recommended that dividend at the following rates might be paid by the Railways to General Revenues for the period 1980-84:

(i) a rate of 6 per cent may be adopted for payment of dividend on capital invested upto 31-3-80 (inclusive of 1.5 per cent on capital invested upto 31-3-64 for payment to States in lieu of passenger fare tax etc.)

(ii) a mean percentage of 6.5 may be adopted for payment of dividend on the capital invested in the Railways after 31-3-1980.

(iii) the amounts to cover payments to States in lieu of passenger fare tax etc. may be found by computing dividend at 1.5 per cent instead of the existing 1 per cent of the capital upto 31-3-1964 less subsidy element out of which Rs. 23.12 crores may be passed on to the States in lieu of passenger fare tax and the balance utilised to assist the States in providing their portion of the resources required for financing safety works as at present. Further increase could be considered on the basis of the recommendations of the Eighth Finance Commission.

4. The Committee further recommended that the existing dividend reliefs and other equitable concessions given for calculation of dividend payable by the Railways to the General Revenues might continue.

In addition, the Committee had agreed that the entire capital on the ore line (Sambalpur-Titlagarh) instead of 50 per cent thereof may be exempted from the payment of dividend subject to the usual conditions and the balances in the various Railway Reserve Funds (except the Development Fund) might carry the same rate of interest at which dividend was actually paid.

5. The dividend reliefs and other concessions agreed to are as follows:

I. The following elements of capital are fully exempted from payment of dividend:

(a) Strategic lines.

(b) 28 New Lines taken up on or after 1.4.1955 on other than financial considerations; dividend becomes payable if any line becomes remunerative adopting the marginal cost principle. The arrangement is to be applied also to the two National Investments viz., Jammu-Kathua & Tirunelveli-Kanyakumari-Trivandrum Lines as recommended in para 59 of the Committee's 3rd Report (September, 1981).

(c) North-East Frontier Railway (non-strategic portion).

(d) Unremunerative Branch Lines—the exemption of a particular unremunerative branch line from payment of dividend on capital being based on annual review of the unremunerativeness of the line, and the unremunerativeness determined adopting the marginal-cost principle.

(e) Ore lines—Bimalgarh-Kiriburn line and Sambalpur-Titlagarh line.

(f) Ferries and welfare buildings.

(g) 50 per cent of capital on works-in-progress other than those pertaining to strategic lines, North-East Frontier Railway (Commercial), Ore Lines, Jammu-Kathua & Tirunelveli-Kanyakumari-Trivandrum lines, new lines, P & T wires, ferries, welfare buildings, for a period of 3 years.

II. A concessional dividend of 3.5 per cent is payable on the capital cost of residential buildings.

III. New Lines other than those mentioned at I(b) above:

Dividend payable on capital of such lines at the average borrowing rate of interest is deferred during the period of construction and the first 5 years after opening of the line for traffic. The deferred liability is to be paid out of the future surpluses of the line after payment of current dividend. The account of unliquidated deferred dividend liability on new lines is to be closed after a period of 20 years from the date of their opening extinguishing any liability not liquidated with that period.

IV. Losses in the working of strategic lines are borne by the General Revenues. Earnings of such lines, if any, after meeting working expenses, depreciation and other charges are paid to General Revenues to the level of normal dividend.

V. Shortfall, if any in the payment of dividend on account of inadequacy of surplus are treated as a deferred liability on which no interest is charged.

6. In the Supplementary memorandum now submitted to the Committee, the Ministry of Railways referred to the above interim recommendations of the Committee contained in their Seventh Report and stated as follows:—

"The recommendations of the RCC are applicable for a period of 4 years from 1980-81 to 1983-84 pending their final recommendations for the Sixth Five Year Plan period 1980-85.

The 'Action Taken Note' and clarifications asked for on various recommendations/observations made by the Committee in regard to the rate of dividend have been furnished by the Railway Ministry.

The work in connection with framing of the Railway Budget for 1984-85 will be taken in hand very soon. The Railway Convention Committee may need sufficient time for their deliberations. Accordingly, it is submitted for the consideration of the Convention Committee, whether, while framing the Budget for 1984-85, pending their final recommendations, the basis applicable to the years 1980-84 may be made applicable for the years 1984-85 also.

In terms of the recommendations of RCC (1980) made in their Seventh Report as approved by Parliament, Dividend to General Revenues is at present being paid at 6 per cent on Capital invested on the Railways upto 31-3-1980 (inclusive of 1.5 per cent of the capital invested upto 31-3-1964 as payment to States in lieu of Passenger Fare Tax etc.) and 6.5 per cent on Capital invested thereafter. The rates are applicable for the four years period 1980-84.

Pending the final recommendation of Convention Committee in this regard, it is submitted for the consideration of the Committee whether the present rates of dividend may be adopted for the year 1984-85 also. It is also for consideration whether all dividend reliefs and equitable concessions presenty available may also be adopted for the year 1984-85 in the meantime.

The balances in the various Railway Reserve Funds (except Development Fund) are to carry the same rate of interest at which Dividend is actually paid".

7. The Committee had in their Seventh Report recommended the rates at which the dividend should be paid for the period 1980—84 by the Railways to General Revenues pending their final recommendations for the Sixth Plan period (1980—85) as a whole and settling the manner in which the difference between the dividend payable and that paid should be treated. The Committee had inter alia raised a few pertinent issues in regard to dividend and other ancillary matters and the response of the Ministry of Railways thereto have to be examined. In the meantime the Committee agree that the rates as applicable for the period 1980—84 may be adopted for making provision for the actual payment of dividend in the Budget 1984-85 also. Accordingly they recommend:

(i) the existing rate of dividend at 6 per cent on the capital invested on the Railways upto 31-3-1980 (inclusive of 1.5 per cent of the capital invested upto 31-3-1964 as payment to States in lieu of Passenger Fare Tax) and 6.5 per cent on capital invested thereafter may be adopted while framing the Budget for 1984-85;

(ii) the existing concessions available to Railways in the matter of computation of Dividend may also be adopted while framing the Budget for 1984-85; and

(iii) the balances in various Railway Reserve Funds (except Development Fund) during 1984-85 may carry the same rate of interest at which the dividend is actually paid in the Budget for 1984-85, viz., 6.5 per cent.

8. The Committee recall that they had already made clear their reluctance to depart from the time honoured principle of expecting the Railways to make at least a token contribution to the General Revenues over and above the average borrowing rate of interest on capital at charge. Though this liability had been well recognised they had agreed in view of present position of Railway finances that the actual payment be restricted to an amount worked out by applying the differential rates which on a rough reckoning would fall short of even the bare interest charges to the extent of Rs. 300 crores during the Plan period 1980—85.

B. CONTRIBUTION TO THE DEPRECIATION RESERVE FUND AND PENSION FUND

9. The contributions to the Depreciation Reserve Fund and Pension Fund during the years 1980-81 and 1983-84 were as indicated below:—

Year	Amount in crores (Rs.) Depreciation Fund	Pension Fund
1980-81	220	85
1981-82	350	100
1982-83	556	150
1983-84	850	185

10. The Railway Convention Committee, in para 18(a) of their Fourth Report on Rate of Dividend for 1982-83 and other Ancillary Matters had recommended the Contribution to the Depreciation Reserve Fund (DRF) and Pension Fund during 1982-83 to be fixed at Rs. 500 crores and Rs. 1.50 crores respectively. In para 67 of their Seventh Report, the RCC recommended raising the appropriation to DRF from Rs. 500 crores to Rs. 556 crores in 1982-83. They had further recommended regarding DRF as under:

> "So far as the next financial year, viz., 1983-84 is concerned, the Committee have no objection to the contribution being stepped up further keeping in view the assessment of the Railway Reforms Committee and Railway's capacity to raise additional resources."

11. In their memorandum, now placed before the Committee, the Ministry of Railways stated as follows:—

> "The work in connection with the framing of the Railway Budget for 1984-85 will be taken in hand very soon. For this purpose, recommendation of the RCC regarding appropriation to DRF and Pension Fund will be necessary, as detailed below,
>
> *Depreciation Reserve Fund*: The need for contribution to DRF on a substantially larger scale has been highlighted from time to time. The Railway Reforms Committee (RRC) have, in Part IV of their Report on "Railway Reserve Funds" recommended a minimum contribution of Rs 1110 crores per year to the DRF (including Rs. 260 crores per year to liquidate past arrears) to be adjusted for price variation and for new assets to be added to the system.

The Railway Reforms Committee have further recommended that the amount of Rs. 260 crores (included in the figure of Rs. 1110 crores required to wipe out the arrears of replacement should not be considered for upward revision of fares and freight as it will be unfair to burden the current users of rail transport by including this element in the freight and fare structure. Instead, General Exchequer should provide an equivalent amount of subsidy till the backlog is liquidated. The remaining amount of Rs. 850 crores may be provided by the Railways. The Ministry of Finance who were referred to in regard to the General Revenues providing a subsidy of Rs. 260 crores for the next 10 years to meet the liability for clearance of arrears of renewals and replacements have stated that it will not be possible for the General Revenues to provide a separate subsidy to the Railways on the lines recommended by the RRC in view of the tight budgetary position of the various other competing demands. The Ministry of Finance have also not agreed with the recommendation that the Railways should make a pre-determined level of contribution to the DRF irrespective of the financial position of the Railways in the various years. In this connection, they have pointed out that in their 7th Report, the RCC have emphasised that the contribution to the DRF may be based on the Railways capacity to raise additional resources and without diminishing dividend liability to the General Revenues.

While the need for making additional contribution to the Depreciation Reserve Fund to overtake the arrears of replacement and keep the assets in fine fettle is not disputed, the problem is one of generating adequate resources for the same. It is relevant to mention here that one of the important terms of reference of the RRC is to make recommendation regarding methods by which the additional resources required are to be raised. Their final recommendations in this regard are awaited.

With the increasing escalation in prices, the costs of replacement are going up steeply and if the Railways have to provide for replacement on a satisfactory basis, the contribution to the Depreciation Reserve Fund is required to be stepped up progressively. The Depreciation Reserve Fund is expected to have a balance of approximately Rs. 84 crores at the end of 1983-84. As per the tentative Plan outlay ceiling for 1984-85, the drawals from DRF during that year are expected to be of the order of Rs. 940 crores. Accordingly, there seems to be no alternative but to step up the appropriation to the Fund. As has been done for 1983-84 the Railway Convention Committee are requested to recommend that for the financial year 1984-85 the contribution may be suitably stepped up further keeping in view the assessment of the Railway Reforms Committee and the Railways' capacity to generate additional internal resources.

Pension Fund: A contribution of Rs. 182.50 crores is proposed to be made to Pension Fund in 1983-84. Having regard to the increase in the number of pensioners, additional reliefs granted and the liberalisation in the pension payments conditions, the withdrawals from the Fund have been increasing from year to year. An acturial evaluation is being carried out to determine the level of annual contribution to be made to the Funds. Pending the finalisation of this evaluation, it is proposed that the contribution in 1984-85 may be stepped up suitaby to take care of the increasing level of disbursements from the Pension Fund.

The views of the Ministry of Finance on the above proposals are as under:—

"In view of the difficult financial position projected for 1984-85, a contribution of Rs. 850 crores to the Depreciation Reserve Fund will leave a large deficit. If the gap is not filled, the Railways will default in payment of dividend to general revenues to this extent. Besides, the Railways will have to take loans from general revenues for financing the plan expenditure from Development Fund. This fact should be brought to the notice of Railway Convention Committee."

The need for making adequate contribution to the Depreciation Reserve Fund to ensure improvement in safety and operation cannot be over-emphasised. In fact, one of the oft-repeated charge against the Railways is that adequate provision has not been made in the past for replacements and renewals restulting in increasing arrears of renewals and replacements endangering both operation and safety. In this connection, attention is invited to recommendation No. 12 contained in the 56th Report of the Estimates Committee (1983-84) presented to Lok Sabha on 22-10-83, the relevant portion of which reads as under:

"......The Committee has received an unmistakable impression that the renewals programmes of the Railways have been grossly neglected in the past. This neglect has been widespread in regard to tracks, Bridges, signalling equipment etc. which pose a severe threat to safety of Railways' operation. The Committee welcome the recent emphasis on rehabilitation programmes and desire that the effort should be intensified by making adequate allocation for the remaining period of the 6th Plan and for the 7th Plan so that arrears are overtaken."

Attention is also invited to recommendation No. 11 in the latest report of the Railway Reforms Committee-Part XIV on 'Dividend Liability' submitted in January 1984 which reads as follows:—

> "The contribution to DRF must always take precedence over payment of dividend in the interest of efficiency, viability and systems productivity."

12. The contributions to the Depreciation Reserve Fund were of the order of Rs. 220 crores and Rs. 350 crores during the first two years of the Sixth Plan 1980-81 and 1981-82 respectively. In view of the heavy accumulated arrears in renewals and replacements of Railway assets, the Committee had agreed to the contribution being raised to Rs. 556 crores in 1982-83 and stepped up further in 1983-84 keeping in view the assessment of the need by the Railway Reforms Committee and the Railway's capacity to raise additional resources. The Committee note that the contribution for the year 1983-84 was Rs. 850 crores. They further note the assessment of the Railway Reforms Committee of the need to be a minimum of Rs. 1110 crores per year. The Ministry of Finance has not, however, agreed with the view that the Railways should make a predetermined level of contribution to the Fund irrespective of the financial position of the Railways. That Ministry has also cautioned that a contribution of even Rs. 850 crores in 1984-85 will leave a large deficit which, if unfilled, will result in the Railways' default in payment of dividend to General Revenues to that extent. The recommendations of the Railway Reforms Committee regarding methods by which the additional resources required are to be raised by the Railways, are awaited. In the meantime, the Railways Convention Committee agree that for the year 1984-85 the contribution to the Depreciation Reserve Fund may be suitably stepped up keeping in view the Railway's capacity to generate additional internal resources. The Committee propose to deal with the measures to ensure proper funding for replacement needs without diminishing dividend liability in their final Report.

13. The contribution to the Pension Fund was gradually increased from Rs. 85 crores in 1980-81 to Rs. 185 crores in 1983-84. The Committee note that withdrawals from the fund have been increasing from year to year and that an actuarial evaluation is being carried out to determine the level of annual contribution to be made to the fund. The Committee accordingly agree that the contribution to the Pension Fund be stepped up keeping in view the increasing levels of disbursements from the fund, pending finalisation of actuarial evaluation.

NEW DELHI;	D. L. BAITHA,
February 18, 1984.	*Chairman,*
Magha 29, 1905(*S*).	*Railway Convention Committee.*

APPENDIX I

(*Vide* para 4 of Introduction)

Summary of Recommendations/Observations

Sl No.	Referen to para of Report	Recommendations /observations
1	2	3
1	7	The Committee had in their Seventh Report recommended the rates at which the dividend should be paid for the period 1980-84 by the Railways to General Revenues pending their final recommendations for the Sixth Plan period (1980-85) as a whole and settling the manner in which the difference between the dividend payable and that paid should be treated. The Committee had *inter alia* raised a few pertinent issues in regard to dividend and other ancillary matters and the response of the Ministry of Railways thereto have to be examined. In the meantime the Committee agree that the rates as applicable for the period 1980-84 may be adopted for making provision for the actual payment of dividend in the Budget 1984-85 also. Accordingly they recommend: (i) the existing rate of dividend of 6 per cent on the capital invested on the Railways upto 31.3.1980 (inclusive of 1.5 per cent of the capital invested upto 31.3.1964 as payment to States in lieu of Passenger Fare Tax) and 6.5 per cent on capital invested thereafter may be adopted while framing the Budget for 1984-85; (ii) the existing concessions available to Railways in the matter of computation of Dividend may also be adopted while framing the Budget for 1984-85; and

1	2	3
		(iii) the balances in various Railway Reserve Funds (except Development Fund) during 1984-85 may carry the same rate of interest at which the dividend is actually paid in the Budget for 1984-85, viz. 6.5 per cent.
2	8	The Committee recall that they had already made clear their reluctance to depart from the time honoured principle of expecting the Railways to make at least a token contribution to the General Revenues over and above the average borrowing rate of interest on capital at charge. Though this liability had been well recognised they had agreed in view of present position of Railway finances that the actual payment be restricted to an amount worked out by applying the differential rates which on a rough reckoning would fall short of even the bare interest charges to the extent of Rs. 300 crores during the Plan period 1980-85.
3	12	The contributions to the Depreciation Reserve Fund were of the order of Rs. 220 crores and Rs. 350 crores during the first two years of the Sixth Plan 1980-81 and 1981-82 respectively. In view of the heavy accumulated arrears in renewals and replacements of Railway assets, the Committee had agreed to the contribution being raised to Rs. 556 crores in 1982-83 and stepped up further in 1983-84 keeping in view the assessment of the need by the Railway Reforms Committee and the Railway's capacity to raise additional resources. The Committee note that the contribution for the year 1983-84 was Rs. 850 crores. They further note the assessment of the Railway Reforms Committee of the need to be a minimum of Rs. 1110 crores per year. The Ministry of Finance has not, however, agreed with the view that the Railways should make a predetermined level of contribution to the Fund irrespective of the financial position of the Railways. That Ministry has also cautioned that

1	2	3
		a contribution of even Rs. 850 crores in 1984-85 will leave a large deficit which, if unfilled, will result in the Railways' default in payment of dividend to General Revenues to that extent. The recommendations of the Raiway Reforms Committee regarding methods by which the additional resources required are to be raised by the Railways, are awaited. In the meantime, the Railways Convention Committee agree that for the year 1984-85 the contribution to the Depreciation Reserve Fund may be suitably stepped up keeping in view the Raiway's capacity to generate additional internal resources. The Committee propose to deal with the measures to ensure proper funding for replacement needs without diminishing dividend liability in their final Report.
4	13	The contribution to the Pension Fund was gradually increased from Rs. 85 crores in 1980-81 to Rs. 185 crores in 1983-84. The Committee note that withdrawals from the fund have been increasing from year to year and that an actuarial evaluation is being carried out to determine the level of annual contribution to be made to the fund. The Committee accordingly agree that the contribution to the Pension Fund be stepped up keeping in view the increasing levels of disbursements from the fund, pending finalisation of actuarial evaluation.